

## **Parker Review Guidance: July 2023 (Updated October 2023)**

### **FAQs on the extension of scope to encompass senior management announced in the March 2023 Report**

Senior management targets for ethnic diversity have been introduced to encourage companies to build their internal pipeline of ethnic minority talent. We are pleased to see that companies are engaging with this request. We outline some of the frequently asked questions below to guide and support companies' progress on this important topic:

#### **1. Are we obliged to use the definition of 'senior management' set by the Parker Review?**

We define 'senior management' as members of the Executive Committee (or equivalent) and those senior managers who report directly to them. We refer to these groups as 'ExCo and ExCo minus one.'

We are concerned with the leadership and management of a company, and we would like companies to set targets based on roles and responsibilities rather than other criteria such as highest earners.

For the purposes of reporting to the Parker Review, we encourage companies to align their definition with ours for consistent comparison. However, if this is not possible or does not suit the company, it is permissible for it to use its own definition. In such cases, we would ask companies to alert us that they are using a different definition and to provide a brief explanation in their Annual Report of the definition used.

#### **2. We already have a definition of 'senior management' which does not align with the Review's definition of 'ExCo and ExCo-1'. Can we continue to use our definition?**

The Parker Review acknowledges that a company's structure may not align directly with our definition. We are keen to ensure that companies promote diversity in the most influential roles in their business; this is likely to be a relatively small group of individuals compared to broader definitions of management or leadership. This group is likely to comprise between 30 and 80 individuals in many companies albeit that there may be some companies with fewer than these numbers, and others with more.

For the purposes of reporting to the Parker Review in 2023 and beyond, we encourage companies to align their definition with ours for consistent comparison. For companies that do not yet have targets, we encourage them to adopt the Parker Review definition of senior management for the purpose of consistency. It also aligns with the definition used by the FTSE Women Leaders Review.

However, we fully understand that companies that have established targets already may have different definitions for the relevant senior management population, and we do not ask that they change those. In other words, we will accept submissions using the company's own pre-defined population. There will be no adverse consequences for following this approach. In such cases, we would ask companies to alert us that they are using a different definition and to provide a brief explanation in their Annual Report of the definition used.

#### **3. Our company has individuals who directly report into our Executive Committee who are not in senior management roles. Should we include these individuals in our targets?**

The Parker Review seeks above all to increase the diversity of those in positions of greatest influence in business. For the purposes of the Parker Review, we would therefore ask companies only to include the members of their Executive Committee (or equivalent body) and any direct reports who would be regarded as senior managers. Please do not include individuals who are not in senior management roles.

**4. Our company already has a target set to be achieved by a date before 2027/beyond 2027. How should we respond to the request to meet our target by 2027?**

We would expect that such targets have already been made public within the Company's Annual Report, to provide transparency over this important objective to the company's stakeholders. On this basis:

Targets pre-2027

We encourage companies with targets already set to be achieved before 2027 to meet these as a first step. For the purposes of making a submission on senior management to the Parker Review in December 2023 (which is a private submission), we would encourage these companies each to set and report a further target to be achieved in 2027. Where companies decide not to do this or this is not practicable, we ask companies to report their current target to us.

Targets post-2027

For companies with targets already in place for a date beyond 2027, for the purposes of making a submission on senior management to the Parker Review in December 2023 (which is a private submission), we would encourage them to consider setting an interim target for 2027 which can be reported to us. However, we understand that may not be practicable, in which case we ask companies to report their current target to us. We would also ask that these companies provide a brief explanation in their Annual Report of the date used. There will be no adverse consequences for following this approach.

**5. What information will companies be asked to disclose in future years, post-2023?**

In December 2024 and annually thereafter, we expect every FTSE 350 company to report its target to us and we anticipate including this information in our Report in March 2025 and in subsequent years. We strongly encourage companies that have not yet adopted targets for the ethnic diversity of their senior management to do so.

We will ask companies to report progress to us and in their Annual Reports on their actual numbers against their targets annually from December 2024 onwards.

We are considering whether or not in future years we will ask those companies which do not provide data on our standard 'ExCo and ExCo-1' definition to provide us this information on a private basis for comparability purposes. We have made no decision on this at this point.

**6. How does the Parker Review define 'ethnic minority'?**

For the purpose of the Review, we define an 'ethnic minority' as any individual in a senior management or director position in a UK company who identifies as Black, Asian or any other race or ethnicity that is not the white majority of the UK population as defined by the ONS and used in the 2021 UK Census. This definition encompasses British and non-British individuals who would be considered as an ethnic minority in the UK context.

For example, the 2021 Census reported an increase in the number of individuals choosing to specify their ethnic group as "other ethnic group: any other ethnic group," which included those who identify as Hispanic or Latin American.

Since the Review's inception, we have used the UK classifications as set out by the government's Office for National Statistics (ONS). We intend to continue to follow this approach.

**Table 1. UK Census 2021: Ethnicity categorisations**

<b>White</b>
1. English / Welsh / Scottish / Northern Irish / British
2. Irish
3. Gypsy or Irish Traveller
4. Any other White background, <i>please describe</i>
<b>Mixed/ Multiple ethnic groups</b>
5. White and Black Caribbean
6. White and Black African
7. White and Asian
8. Any other Mixed / Multiple ethnic background, <i>please describe</i>
<b>Asian / Asian British</b>
9. Indian
10. Pakistani
11. Bangladeshi
12. Chinese
13. Any other Asian background, <i>please describe</i>
<b>Black / African / Caribbean / Black British</b>
14. African
15. Caribbean
16. Any other Black / African / Caribbean background, <i>please describe</i>
<b>Other ethnic group</b>
17. Arab
18. Any other ethnic group, <i>please describe</i>

**7. We are a global business. Many of our senior managers and directors overseas are not of an ethnic minority in their context. Should we report these individuals as ethnic minorities in the survey?**

We accept that our definition of 'ethnic minority' will mean that some individuals who are not of an ethnic minority in the country in which they operate will be defined as an ethnic minority in the context of the Parker Review.

This means that companies with a global footprint may set higher targets to reflect their greater ethnic diversity than companies who only employ people in the UK. For example, a senior manager of Indian ethnicity working in India for a British company would be considered by the Parker Review as part of the ethnic minority category in that company and should therefore be considered in the target.

**8. Should we use ONS ethnicity categories for data on our UK employees?**

We advise that the Office for National Statistics (ONS) categories for ethnicity should be used. But we do not believe companies should be restricted by these. The categories set out by ONS are a minimum expectation; where companies have considerable representation of other ethnic groups, we recommend that these are added to the company's HR system.

**9. It is illegal to ask for the ethnicity of our employees in one or more of our global offices. How should we approach this?**

In contexts where asking an individual for their specific ethnicity is not permissible, we suggest that companies seek to understand whether they are able to ask a different question instead, and work with their local teams and legal counsel to determine an alternative approach. Where such an alternative approach is not possible, companies should declare a proportion of ‘unknown’ ethnicities. This classification will be separate from those who choose to report ‘prefer not to say.’

**10.**

**a. Why does the Parker Review try to assess the ethnic diversity of employees of British companies who work outside the UK?**

Naturally, we encourage companies above all to work on the representation of ethnic minorities based in the UK.

But we also believe that British companies should take responsibility as far as is possible to have equitable employment policies for all ethnicities in every country in which they operate. We believe that this will enhance the ability of businesses to deliver the economic value of diversity. It will also mean that British businesses are playing their part in building a more cohesive and fairer society in the countries where they have employees.

**b. If that is the case, would it not be more suitable to ask companies to assess the ethnicities of their executives in each country against the proportion of that country’s population belonging to each ethnic group?**

It is not realistic, or within our remit, to assess the ethnicities of executives in each country relative to the ethnic distribution in that country. Each UK company with an international footprint will have a senior management composition that is geographically dispersed according to its own structure and operations.

These companies will need to consider how they achieve appropriate diversity at the most senior levels of their organisation as a whole. These considerations will not necessarily be the same as those required to achieve appropriate diversity at a local level. We encourage these international companies to develop leadership teams at board and senior management level which reflect the ethnic diversity of the UK and the other jurisdictions in which they operate.

**11. Can we change our target once it has been submitted to the Parker Review?**

We encourage companies to review their targets and to change these as appropriate over time. If companies are to change their targets, we would strongly recommend that the rationale for these changes is included in the company’s Annual Report.

**12. In light of the above, will the Parker Review rank companies on their responses to the 2023 survey and future surveys?**

We have no intention to do so. As outlined in the March 2023 report, differences in ethnic minority representation, in the UK and internationally, make it in practice impossible to promote one fixed target for senior management. We therefore believe it would be unfair to rank companies based on their targets, given that each senior management team will have its own geographical footprint.

Nonetheless, we do think it is important that companies do provide relevant data to their stakeholders and to the Parker Review.

**13. What is the Parker Review going to do with the information it receives on company targets?**

We are not going to pass judgement on the level of any given target. For the reasons stated in the Report, each company will have the opportunity to set its own target for 2027 for the percentage of its senior management team who are from an ethnic minority which means that we expect to see variation in targets. We encourage companies to explain in its Annual Report (or equivalent) the reasons for its target, so that relevant stakeholders, including shareholders and employees, can understand the approach taken.

Our purpose is to provide transparency to drive progress. We are interested in whether companies are setting targets for senior management, the range of targets, and progress against these. We hope that this process identifies good practice.

**14. For our private family company, our Board is predominantly comprised of family members. What are the expectations regarding diversity reporting?**

For private family companies, we acknowledge that recruitment is not conducted in the same way as other private companies. Under such circumstances, diversity may (but not necessarily) be more challenging to achieve. We recommend that private family companies with family-run Boards report on the most senior operating Board as though it were the main Board or combine this information with the diversity data of the Board. We would encourage these companies to explain the definition they have chosen.